

SILVER DRAGON RESOURCES INC.

FORM 10-Q/A (Amended Quarterly Report)

Filed 12/02/11 for the Period Ending 09/30/11

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: September 30, 2011

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from: _____ to _____

SILVER DRAGON RESOURCES INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction
of Incorporation)

0-29657

(Commission File Number)

33-0727323

(I.R.S. Employer Identification No.)

**5160 Yonge Street, Suite 803
Toronto, Ontario Canada
M2N 6L9**

(Address of Principal Executive Office) (Zip Code)

(416) 223-8500

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer., or a smaller reporting company.

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of October 25, 2011 there were 127,659,990 shares of common stock outstanding, par value \$0.0001.

As of October 25, 2011 the aggregate market value was \$6,383,000 based on upon the closing sale price of the common stock as reported by the Over-the-Counter Bulletin Board ("OTCBB") on that date.

Explanatory Note

The Company is hereby filing Amendment No. 1 to its Quarterly Report on Form 10-Q for the sole purpose of correcting a formatting error that occurred during the edgarization process.

On the Cover Page of the Form 10-Q report, the checkbox to "Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days." was not checked. This has been corrected with a checked response of "Yes". No other changes have been made to the report as originally filed.

SILVER DRAGON RESOURCES INC.

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FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2011 and 2010

(EXPRESSED IN UNITED STATES FUNDS)

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SILVER DRAGON RESOURCES INC.
(An exploration company)
Consolidated Balance Sheets
(Unaudited)

	September 30 2011	December 31 2010
ASSETS		
Current assets		
Cash	\$ 78,580	\$ 96,563
Other receivable	71,938	–
Notes receivable (note 4)	2,305,158	–
Prepaid expenses	131,823	203,258
Total current assets	2,587,499	299,821
Notes receivable (note 4)	2,000,000	–
Deferred expenses	168,000	220,125
Plant and equipment, net (note 5)	55,538	90,875
Equity investment (note 6)	4,533,109	4,832,922
Total assets	\$ 9,344,146	\$ 5,443,743
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 562,864	\$ 1,127,839
Accrued liabilities	425,348	309,466
Promissory note payable (note 7)	166,623	166,623
Convertible notes payable (note 8)	85,458	170,000
Related party payables (note 9)	–	260,256
	1,240,293	2,034,184
Non-current liabilities		
Convertible notes payable (note 8)	3,935,341	–
Total liabilities	5,175,634	2,034,184
Capital stock (note 10)		
Preferred stock, \$0.0001 par value, 20,000,000 shares authorized, none issued and outstanding	–	–
Common stock, \$0.0001 par value, 300,000,000 shares authorized (2010 – 150,000,000), 118,559,215 shares issued and outstanding (2010 – 98,728,017 issued and outstanding)	11,856	9,873
Additional paid-in capital (note 10)	43,174,708	39,641,412
Treasury (550,000 shares)	(209,000)	(209,000)
Deficit accumulated during the exploration stage	(38,928,589)	(36,054,080)
Accumulated comprehensive income	119,537	21,354
Stockholders' equity	4,168,512	3,409,559
Total liabilities and stockholders' equity	\$ 9,344,146	\$ 5,443,743

Going concern (note 2)

Commitments and contingencies (note 12)

The accompanying notes are an integral part of these consolidated financial statements.

SILVER DRAGON RESOURCES INC.
(An exploration stage company)
Consolidated Statements of Operations and Comprehensive Loss
For the three and nine-month periods ended September 30, 2011 and 2010, and
Cumulative for the period from June 15, 1996 (date of inception) to September 30, 2011
(Unaudited)

	For the three-month periods ended		For the nine-month periods ended		For the period from June 15, 1996 (date of inception) to Sept 30, 2011
	Sept 30 2011	Sept 30 2010	Sept 30 2011	Sept 30 2010	
Operating expenses					
Exploration	\$ -	\$ 31,011	\$ -	\$ 181,792	\$ 7,174,048
General and administrative	602,596	520,126	1,739,032	1,528,404	27,425,823
Write-off of Mexican assets	-	-	-	-	3,242,039
Total operating expenses	602,596	551,137	1,739,032	1,710,196	37,841,910
Loss from operations	(602,596)	(551,137)	(1,739,032)	(1,710,196)	(37,841,910)
Other (expenses) income					
Interest expense	(416,951)	(72,709)	(812,892)	(72,906)	(1,286,663)
Interest income	25,000	-	62,500	-	62,500
Gain (loss) on embedded derivative	-	22,500	-	(76,500)	-
Net loss on equity investment	(194,227)	(328,710)	(385,085)	(1,029,923)	(955,117)
Forgiveness of debt	-	-	-	-	38,871
Gain on sale of interest of Subsidiary	-	-	-	-	1,816,733
Non-recurring items	-	-	-	-	(713,269)
Total other expenses	(586,178)	(378,919)	(1,135,477)	(1,179,329)	(1,036,945)
Loss before income taxes	(1,188,774)	(930,056)	(2,874,509)	(2,889,525)	(38,878,855)
Provision for income taxes	-	-	-	-	-
Net loss from continuing operations, after tax	(1,188,774)	(930,056)	(2,874,509)	(2,889,525)	(38,878,855)
Minority interest	-	-	-	-	253,021
Loss from discontinued operations (net of tax)	-	-	-	-	(302,755)
Net loss	(1,188,774)	(930,056)	(2,874,509)	(2,889,525)	(38,928,589)
Other comprehensive income (loss)					
Foreign exchange gain (loss)	89,414	(6,452)	98,183	(14,085)	119,537
Comprehensive loss	(1,099,360)	(936,508)	(2,776,326)	(2,903,610)	(38,809,052)
Net loss per common share – basic and diluted	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.03)	
Weighted average number of common shares outstanding – basic and diluted	109,861,073	95,961,873	113,827,074	93,616,627	

The accompanying notes are an integral part of these consolidated financial statements.

SILVER DRAGON RESOURCES INC.
(AN EXPLORATION STAGE COMPANY)
Consolidated Statements of Cash Flows
For the nine month periods ended September 30, 2011 and 2010, and
Cumulative for the period from June 15, 1996 (date of inception) to September 30, 2011
(Unaudited)

	Sept 30 2011	Sept 30 2010	For the period from June 15, 1996 (date of inception) through Sept 30, 2011
Cash flows from operating activities			
Net loss	\$ (2,874,509)	\$ (2,889,525)	\$ (38,928,589)
Net loss from discontinued operations	-	-	302,755
Net loss from continuing operations excluding minority interest	<u>(2,874,509)</u>	<u>(2,889,525)</u>	<u>(38,625,834)</u>
Adjustments for:			
Depreciation	35,335	69,921	560,175
Net loss from equity investment	385,085	1,029,923	1,052,815
Loss on recognition of embedded derivative	-	76,500	-
Interest on convertible notes payable	105,894	-	105,894
Shares issued for services	90,950	369,126	8,564,071
Warrants and options issued for services	249,822	196,377	3,858,034
Amortization of beneficial conversion feature	353,507	70,476	453,348
Write-down of mineral rights	-	-	3,411,309
Write-down of assets	-	45,123	240,063
Other	-	-	(1,630,814)
Changes in non-cash working capital:			
Other receivable	(71,938)	-	(87,327)
Deferred expenses	123,560	135,391	282,266
Accounts payable	(130,301)	6,347	2,200,038
Accrued liabilities	115,882	(21,033)	394,513
Other	-	-	680,990
Net cash used in operating activities	<u>(1,616,713)</u>	<u>(911,374)</u>	<u>(18,540,459)</u>
Cash flows from investing activities			
Investments in mineral rights	-	(15,564)	(1,920,441)
Additional contribution to Sino-Top	(85,272)	65,451	(3,531,461)
Acquisition of plant and equipment	-	-	(981,486)
Other	-	-	4,364,090
Net cash (used in) provided by investing activities	<u>(85,272)</u>	<u>49,887</u>	<u>(2,069,298)</u>
Cash flows from financing activities			
Proceeds from issuance of common stock and warrants	125,000	569,000	18,022,492
Share issuance costs	(8,750)	(15,750)	(206,686)
Related party loans payable	-	183,069	1,192,922
Repayments of related party payables	(260,256)	-	(722,813)
Minority interest	-	-	253,021
Promissory note payable	-	-	516,623
Write-down of promissory note payable	-	-	(350,000)
Issuance of convertible notes payable (note 11)	1,729,825	120,000	1,878,318
Other	-	-	(59,609)
Net cash provided by financing activities	<u>1,585,819</u>	<u>856,319</u>	<u>20,524,268</u>
Effect of exchange rate on cash	<u>98,183</u>	<u>(20,316)</u>	<u>164,069</u>
Change in cash	<u>(17,983)</u>	<u>(25,484)</u>	<u>78,580</u>
Cash - beginning of period	<u>96,563</u>	<u>137,448</u>	<u>-</u>
Cash - end of period	<u>\$ 78,580</u>	<u>\$ 111,964</u>	<u>\$ 78,580</u>

Supplemental cash flow information (note 11)

The accompanying notes are an integral part of these consolidated financial statements.



SILVER DRAGON RESOURCES INC.
(AN EXPLORATION STAGE COMPANY)
Notes to the Consolidated Financial Statements
September 30, 2011 and 2010
(Unaudited)

1 . Nature of Business and Basis of Presentation

Silver Dragon Resources Inc. was incorporated on May 9, 1996 in the State of Delaware and its executive office is in Toronto, Canada. It carries out operations through subsidiaries in Canada and Mexico and an affiliate in China, although operations in Mexico are dormant pending resolution of a lawsuit (see note 12(d)). Silver Dragon Resources Inc. and its subsidiary and affiliate (collectively referred to as “Silver Dragon” or the “Company”) are in the exploration stage as defined by Financial Accounting Standards Board’s (“FASB”) Accounting Standard Codification (“ASC”) 915 “Accounting and Reporting For Development Stage Entities.”

The Company’s strategy is to acquire and develop a portfolio of silver properties in proven silver districts globally. To date, the Company has generated no sales and has devoted its efforts primarily to financing, by issuing common shares and convertible debt, and exploring its properties.

The accompanying consolidated financial statements of the Company have been prepared following generally accepted accounting principles in the United States (“US GAAP”), are expressed in United States funds, and pursuant to the regulations of the Securities and Exchange Commission (“SEC”) for interim financial statements. In the opinion of management, all adjustments necessary for a fair presentation have been included. These interim financial statements should be read in conjunction with the consolidated financial statements of the Company for the fiscal year ended December 31, 2010 filed in the Company’s Annual Report on Form 10-K.

2. Going Concern and Exploration Stage Activities

These consolidated financial statements have been prepared in accordance with US GAAP applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next twelve months.

At September 30, 2011, the Company had working capital of \$1,347,206 (December 31, 2010 – (\$1,734,363)), had not yet achieved profitable operations, incurred a net loss of 2,874,509 for the nine months ended September 30, 2011 (2010 – \$2,889,525), has accumulated losses of \$38,928,589 since its inception, and expects to incur further losses in the development of its business. These factors cast doubt as to the Company’s ability to continue as a going concern, which is dependent upon its ability to obtain the necessary financing to repay liabilities when they come due, and in the long-run is dependent upon achieving profitable operations. Management believes that the Company will be able to obtain additional funds by equity or convertible debt financing; however, there is no assurance of additional funding being available or available on acceptable terms. Realization values may be substantially different from carrying values as shown. These consolidated financial statements do not include any adjustments to reflect the future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result if the Company were unable to continue as a going concern.

3. Financial Instruments

The carrying value of cash, notes receivable, accounts payable, accrued liabilities, promissory note payable, current portion of convertible notes payable and related party payables approximated their fair value as of September 30, 2011 and December 31, 2010 due to their short-term nature. Management believes that the carrying value of the non-current portion of convertible notes payable and notes receivable approximates their fair value.

Cash consists of demand deposits at a bank. There are no cash equivalents.

SILVER DRAGON RESOURCES INC.
(AN EXPLORATION STAGE COMPANY)
Notes to the Consolidated Financial Statements
September 30, 2011 and 2010
(Unaudited)

3. Financial Instruments , continued

In the opinion of management, the Company is not exposed to significant interest or credit risks arising from its financial instruments. While the reporting currency is the United States Dollar (“USD”), \$105,314 of consolidated expenses for the nine-month period ended September 30, 2011 are denominated in Mexican Pesos; and \$661,724 of consolidated expenses for the nine-month period ended September 30, 2011, are denominated in Canadian Dollars. As at September 30, 2011; \$900,221 of the net monetary liabilities are denominated in Mexican Pesos; and \$726,546 of the net monetary liabilities are denominated in Canadian Dollars. The Company has not entered into any hedging transactions to reduce the exposure to currency risk.

4. Notes Receivable

- (a) Notes receivable consists of ten notes issued by an investor. (note 8(a)), each in the principal amount of \$200,000 and bearing interest of 5% per annum, with payment to the Company due on or before the earlier of (i) 49 months from February 15, 2011, or (ii) subject to certain conditions; a series of dates beginning September 15, 2011 and continuing on the 15th of each month thereafter. Three of the notes receivable are secured by real estate property owned by the investor and the remainder are unsecured.

On June 20, 2011, the Company agreed with the investor to modify the terms of certain notes. The notes that were due on September 15, 2011 and October 15, 2011 were redeemed in exchange for \$271,561 on July 1, 2011 with the difference recorded as interest expense.

- (b) Notes receivable includes a promissory note issued by an investor on April 11, 2011 (note 8(b)) for \$300,000, bearing interest at 6% per annum and secured by assets with a value of not less than \$300,000. The agreement was amended on October 12, 2011, and as a result \$200,000 was paid on October 14, 2011. The remaining \$100,000 principal and interest is due on January 31, 2012.
- (c) Notes receivable comprises of four notes issued to an investor on April 19, 2011 (note 8 (c)) of \$500,000 each, totaling \$2,000,000 and bearing interest at 5.25% per annum, with payment of principal and interest due on maturity on April 19, 2014. The notes are secured and collateralized. The Company has received \$650,000 of the \$1,000,000 initial note, and of the remaining \$350,000 non-interest bearing receivable, \$100,000 is currently due and \$250,000 is due November 19, 2011.

5 . Plant and Equipment, net

	Cost	Accumulated depreciation	September 30, 2011 Net book value	December 31, 2010 Net book value
Computer hardware	\$ 40,559	\$ 31,100	\$ 9,459	\$ 12,205
Office equipment	45,720	27,351	18,369	21,610
Leasehold improvements	195,667	167,957	27,710	57,060
	\$ 281,946	\$ 226,408	\$ 55,538	\$ 90,875

SILVER DRAGON RESOURCES INC.
(AN EXPLORATION STAGE COMPANY)
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September 30, 2011 and 2010
(Unaudited)

6. Equity Investment Sanhe Sino-Top Resources & Technologies Ltd., China

Gansu Shengda Group Ltd. (“Shengda”), owns 52%, and Exploration Unit of North China Geological Exploration Bureau, also known as Huaguan Industrial Corp. (“HIC”) and 5 individuals own 8%, and the Company owns 40% of Sino-Top, whose assets mainly consist of six exploration properties. Erbahuo, a seventh exploration property controlled by Sino-Top, is 70% beneficially owned by the Company and 30% by HIC.

Carrying value of investment at December 31, 2010	\$	4,832,922
Additional investment and advances		85,272
40% share of net loss for the nine-month period ended September 30, 2011		(385,085)
Carrying value of investment at September 30, 2011	\$	4,533,109

Share of loss for the nine-month period ending September 30:

	2011	2010
Exploration expenses	\$ (260,115)	\$ (907,218)
General and administrative expenses	(124,970)	(122,705)
Share of loss for the nine-month period (at 40%)	\$ (385,085)	\$ (1,029,923)

7. Promissory Note Payable

In 2008, a promissory note was signed with a vendor in the amount of \$166,623 with a carried interest rate of 5% per month, unsecured, and no maturity date. During the nine-month period ended September 30, 2011, the Company incurred interest of \$74,980.

8. Convertible Notes Payable

	Current	Non-current
Balance, December 31, 2010	\$ 170,000	\$ -
Issued during the nine-month period ended September 30, 2011	225,000	6,316,500
Deferred charges	(19,542)	(1,937,357)
Converted during the nine-month period ended September 30, 2011	(290,000)	(443,802)
Balance, September 30, 2011	\$ 85,458	\$ 3,935,341

- (a) On February 15, 2011, the Company closed a convertible financing of \$2.5 million bearing interest of 5.5% per annum over a four-year period, with consideration of \$500,000 paid at closing and \$2,000,000 paid in a series of ten notes (note 4(a)), each in the principal amount of \$200,000, due on or before the earlier of (i) 49 months from February 15, 2011, or (ii) subject to certain conditions, a series of dates beginning on September 15, 2011 and following on the 15th of each month thereafter (note 4(a)). The Company has the right to offset the payment of any unpaid note receivable subject to certain conditions. In exchange for the note receivable issued, the Company issued a convertible note payable with a face amount of \$2,766,000 due February 15, 2015, which represents the \$2,500,000 paid or to be paid to the Company by the investor and other fees and expenses. The investor also received a warrant to purchase 8.6 million common shares of the Company at an exercise price of \$0.50 per share at any time within three years after the date of issuance.

SILVER DRAGON RESOURCES INC.
(AN EXPLORATION STAGE COMPANY)
Notes to the Consolidated Financial Statements
September 30, 2011 and 2010
(Unaudited)

8. Convertible Notes Payable , continued

The proceeds of the financing were allocated between the convertible note payable (\$1,938,233), the related warrants (\$242,090), the related expenses (\$343,391), and the beneficial conversion feature (\$242,786) based upon their respective fair values in accordance with ASC 470 (“Debt”). The difference between the face value of the convertible note payable and the allocated value is being charged to interest expense over the term of the convertible note payable. The fair value of the beneficial conversion feature will be allocated over the term from commitment date to the maturity date of the convertible note payable. Contingent beneficial conversion features will be recognized when the outstanding conditions have been met and will be amortized from the date of recognition to the maturity date of the convertible note payable. The fair value of the warrants and the related expenses will be allocated over the term from the commitment date to the maturity date of the convertible note payable.

- (b) On April 11, 2011, the Company issued two unsecured, convertible notes with a principal amount of \$100,000 and \$300,000, bearing interest at 6% per annum and maturing April 11, 2013. This reflects an original issue discount of 4% and the sale of this note to the holder for \$96,000 and \$288,000 respectively. The notes are convertible into common stock, at the lender’s option, at a 30% discount of any four trading days prior to and including the day of conversion. As consideration, the Company received the note receivable set out in note 4(b).
- (c) On April 19, 2011, the Company closed a convertible financing agreement with a privately-held US investment firm. The total planned funding amount is \$3,000,000, with payment consisting of \$1,000,000 through a convertible promissory note and four \$500,000 promissory notes, bearing interest at 5%, secured and collateralized by the lender.

The initial note provides for \$1,000,000 in the form of cash payments to be made to the Company according to a funding schedule expiring 180 days after an effective registration statement covering the resale of the shares of common stock issuable upon conversion of the note, assuming certain share volume and prices are met. The registration statement became effective on May 19, 2011. \$650,000 was paid to the Company. \$100,000 is currently due and \$250,000 is due November 19, 2011 (note 4(c)). The subsequent notes each aggregate \$500,000 consideration, totaling \$2,000,000, which are secured and collateralized, over the remainder of the three-year period. The total face amount of the convertible notes issued is \$3,150,000, which represents \$3,000,000 to be paid to Company and other fees and expenses to be paid to the lender. The difference between the fair value of the convertible note payable and the allocated value is being charged to interest expense over the term of the convertible note payable. The fair value of the beneficial conversion feature as at September 30, 2011 is \$977,083. The fair value of the beneficial conversion feature will be allocated over the term from the commitment date to the maturity date of the convertible note payable.

- (d) On January 11, 2011, the Company issued a convertible note with a principal amount of \$65,000. On March 1, the Company issued a convertible note with a principal amount of \$55,000. On April 8, 2011, the Company issued a convertible note with a principal amount of \$50,000. The notes bear interest of 8% per annum, are unsecured, and are due on October 13, 2011; December 2, 2011 and January 12, 2012, respectively. The notes are convertible into common stock, at the lender’s option, at a discount to the average of the three lowest closing prices of the common stock during the 10 trading day period prior to conversion. The lender has agreed to restrict its ability to convert the notes and receive shares of common stock such that the number of shares of common stock held by them and their affiliates in the aggregate after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of common stock.

SILVER DRAGON RESOURCES INC.
(AN EXPLORATION STAGE COMPANY)
Notes to the Consolidated Financial Statements
September 30, 2011 and 2010
(Unaudited)

9. Related Party Transactions and Balances

	September 30, 2011	December 31, 2010
Unpaid remuneration	\$ -	\$ 213,040
Advances	-	47,216
	\$ -	\$ 260,256

During the nine-month period ended September 30, 2011, the Company incurred \$247,590 (September 2010 - \$216,000) in management fees paid to a company controlled by a director for services rendered other than in his capacity as director.

10. Capital Stock

Stock Issuances	Common Stock		Deficit Accumulated		Treasury	Accumulated Comprehensive Income	Total Stockholders ' Equity
	Number of Shares	Amount	Additional Paid-in Capital	During the Exploration Stage			
Balance, December 31, 2010	98,728,017	\$ 9,873	\$ 39,641,412	\$ (36,054,080)	\$ (209,000)	\$ 21,354	\$ 3,409,559
Shares issued for cash	1,250,000	125	124,875	-	-	-	125,000
Shares issued for services	1,490,000	149	174,427	-	-	-	174,576
Shares issued on conversion of notes	11,957,302	1,196	838,500	-	-	-	839,696
Shares issued for settlement of debt	5,883,896	588	434,085	-	-	-	434,673
Warrants issued for cash	-	-	80,389	-	-	-	80,389
Warrants issued for services	-	-	373,695	-	-	-	373,695
Beneficial conversion feature	-	-	1,599,625	-	-	-	1,599,625
Shares issuance costs	-	-	(8,750)	-	-	-	(8,750)
Shares cancelled	(750,000)	(75)	(83,550)	-	-	-	(83,625)
Other comprehensive income (loss)	-	-	-	-	-	98,183	98,183
Net loss nine-month period ended September 30, 2011	-	-	-	(2,874,509)	-	-	(2,874,509)
Balance, September 30, 2011	118,559,215	\$ 11,856	\$ 43,174,708	\$ (38,928,589)	\$ (209,000)	\$ 119,537	\$ 4,168,512

- (a) Between January 3 and September 27, 2011 an investor elected to convert five outstanding notes payable totaling \$290,000 plus accrued interest of \$11,600. The Company issued a total of 4,717,302 shares in lieu of a cash payment (note 8(d)).
- (b) On January 18, 2011, the Company issued 50,000 shares of restricted common stock to a company, pursuant to the signing of a term sheet proposing \$2.5 million of convertible debt financing for the Company, for fair value of \$5,400 (note 8(d)).
- (c) On January 25, 2011, the Company issued 1,410,000 common share purchase warrants to directors and consultants at an exercise price of \$0.11 exercisable for a period of three years from the date of issuance.

SILVER DRAGON RESOURCES INC.
(AN EXPLORATION STAGE COMPANY)
Notes to the Consolidated Financial Statements
September 30, 2011 and 2010
(Unaudited)

10. Capital Stock, continued

- (d) As an element of the Company's ongoing financing program on January 27, 2011, the Superior Court of the State of California for the County of Los Angeles entered an Order Approving Stipulation for Settlement of in the matter entitled Socius CG II, Ltd. v. Silver Dragon Resources Inc. The order provided for settlement of Socius GC II, Ltd.'s ("Socius") \$405,981 claim against the Company. Socius purchased the claims from seven creditors of Silver Dragon. On January 28, 2011, the Company issued 9,000,000 shares of common stock to Socius and Socius subsequently returned 3,116,104 shares for cancellation.
- (e) On January 31, 2011, the Company issued 15,000 shares of restricted common stock to an individual for investor relation services provided, for fair value of \$1,500.
- (f) On February 23, 2011, the Company issued 100,000 shares of restricted common stock to an individual pursuant to an addendum to an agreement signed October 7, 2010, for fair value of \$12,400.
- (g) On February 15, 2011 the Company issued 8.6 million share purchase warrants to an investor, as part of a financing arrangement (note 8) at an exercise price of \$0.50 for a period of three years from the date of issuance.
- (h) On February 17, 2011, the Company issued 250,000 share purchase warrants to a company at an exercise price of \$0.07 exercisable for a period of one year from the date of issuance.
- (i) On April 20, 2011, the Company issued 125,000 shares of restricted common stock to a law firm for legal services provided in connection with the convertible financing agreement closed on April 21, 2011, for fair value of \$20,000.
- (j) On May 20, 2011, the Company issued 400,000 and 750,000 shares of restricted common stock for services provided in connection with investor relations, for a fair value of \$45,400 and \$83,625 respectively. On August 24, 2011, the Company cancelled 750,000 shares since the contract for services was cancelled.
- (k) On May 27, 2011, the Company closed a private placement and issued 1,250,000 units at \$0.10 per unit for a total of \$125,000. Each unit comprises of one common share and one common share purchase warrant. Each warrant of this type being exercisable for a period of 12 months to acquire one common share at an exercise price of \$0.20.
- (l) On May 27, 2011, the Company issued 1,250,000 warrants exercisable for a period of 24 months to acquire one common share at an exercise price of \$0.50.
- (m) Between May 31 and September 16, 2011, the Company issued 3,850,000 free trading shares pursuant to the conversion of a note of \$303,360 principal (note 8(c)).
- (n) On June 16, 2011, the Company issued 50,000 shares of restricted common stock for services provided in connection with investor relations, for a fair value of \$5,000.

SILVER DRAGON RESOURCES INC.
(AN EXPLORATION STAGE COMPANY)
Notes to the Consolidated Financial Statements
September 30, 2011 and 2010
(Unaudited)

10. Capital Stock, continued

- (o) Between August 16 and September 28, 2011, the Company issued 3,390,000 shares pursuant to the conversion of a note of \$140,441 principal and \$94,294 interest (note 8(a)).
- (p) On August 10, 2011, the Company issued 100,000 common share warrants to an employee at an exercise price of \$0.15 exercisable for a period of two years from the date of issuance, for fair value of \$6,139.

Warrants

As at September 30, 2011, 23,949,666 warrants were outstanding, having an exercise price between \$0.07 and \$5.00 per share with an average remaining contractual life of 2.06 years.

	Number of warrants	Weighted average exercise price
Balance, December 31, 2010	15,218,237	\$ 0.55
Issued during the nine-month period ended September 30, 2011	12,960,000	0.41
Expired during the nine-month period ended September 30, 2011	(4,228,571)	(0.48)
Balance, September 30, 2011	23,949,666	\$ 0.49

As at September 30, 2011, the range of exercise prices of the outstanding warrants were as follows:

Range of exercise prices	Number of warrants	Average remaining contractual life	Weighted average exercise price
\$0.07 - \$1.00	22,714,666	2.11 years	\$0.43
\$1.01 - \$2.00	1,017,500	1.18 years	\$1.26
\$2.01 - \$5.00	217,500	0.39 years	\$2.93

Options

As at September 30, 2011, 700,000 options were outstanding, having an exercise price between \$0.10 and \$0.95 per share with an average remaining contractual life of 0.73 years.

	Number of options	Weighted average exercise price
Balance, December 31, 2010	700,000	\$ 0.70
Balance, September 30, 2011	700,000	\$ 0.70

As at September 30, 2011, the range of exercise prices of the outstanding options were as follows:

Range of exercise prices	Number of options	Average remaining contractual life	Weighted average exercise price
\$0.10 - \$0.95	700,000	0.73 years	\$0.70

SILVER DRAGON RESOURCES INC.
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11. Supplemental Cash Flow Information

Issuance of convertible notes payable

	September 30, 2011	December 31, 2010	For the period from June 15, 1996 (date of inception) through Sept 30, 2011
Issuance of convertible notes payable	\$ 4,990,000	\$ -	\$ 4,990,000
Cash advances	1,285,000	120,000	1,428,493
Notes receivable	(4,855,158)	-	(4,855,158)
Cash repayments on notes receivable	550,000	-	550,000
Deferred charges	(240,017)	-	(240,017)
	<u>\$ 1,729,825</u>	<u>120,000</u>	<u>1,873,318</u>

12. Commitments and Contingencies

- (a) In 2007, the Company entered into a five year lease agreement for office, which ends March 31, 2012. The future minimum commitment under the lease obligations for office premises are as follows:

2011	\$ 27,261
2012	27,262
	<u>\$ 54,523</u>

In addition, the Company is required to pay its proportionate share of realty taxes and certain other occupancy costs under the terms of the lease.

- (b) Under an agreement with HIC, the Company has committed to provide capital contributions to cover expenses proportionate to its equity interest in Sino-Top.
- (c) In December, 2010, shareholders of the Company received a letter from a shareholder which contained two items. The first was a copy of a legal proceeding filed in China and the second was a letter making certain allegations regarding the Company and its management. The legal proceeding was filed by two shareholders and sought to invalidate the Company's sale in 2008 of 50% of Sanhe Sino-Top Resources & Technologies, Ltd. The Company believes that the legal proceeding was frivolous and wholly without merit. The sale in question was made to a Chinese government-owned entity, after the receipt of approval by the Ministry of Commerce in China. The second item was a letter written by a purported "Minority Shareholder Committee," claiming that it had initiated the proceeding. The letter alleged that the Company and its management had engaged in various improper and illegal activities. The Company, on several occasions, through its legal counsel in several countries, had asked that individual to cease and desist, and subsequently filed a Writ of Summons in the High Court of the Hong Kong Special Administrative Region, Court of First Instance claiming damages for libel, an injunction and other relief. On May 4, 2011, judgment was given in favor of the Company for damages for libel, malicious falsehood, interest and costs, with amounts to be assessed by the court.
- (d) The Company's Mexican subsidiary has been subjected to irregularities that it is seeking to redress. Legal proceedings were heard and decided on an ex parte basis, without notice to the Company that resulted in its Mexican subsidiary losing title to its mineral assets. In December 2010, the Company became aware of this situation, and is now taking steps through the courts in Mexico to redress the situation. It has commenced a Constitutional Rights Claim before the Federal Court in the City of Durango, premised on procedural irregularities. The court proceedings are continuing in Mexico.

SILVER DRAGON RESOURCES INC.
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13. Subsequent Events

On October 12, 2011, the Company amended the terms of the two promissory notes issued April 11, 2011 and during October 2011, the Company issued 8,250,000 shares pursuant to this amended agreement (note 8 (b)).

On October 14, 2011 and October 21, 2011, the Company issued 620,000 and 1,000,000 shares respectively pursuant to a convertible promissory note issued February 15, 2011 (note 8(a)).

During October 2011, the Company issued 1,831,482 shares in connection with the convertible note that was issued April 8, 2011 (note 8(d)).

14. Segmented Information

As at September 30, 2011	Corporate	Mexico	China	Total
Equity investment	\$ -	\$ -	\$ 4,533,109	\$ 4,533,109
Notes receivable	\$ 4,305,158	\$ -	\$ -	\$ 4,305,158
Total assets	\$ 4,809,221	\$ 1,816	\$ 4,533,109	\$ 9,344,146

Nine-month period ended September, 2011	Corporate	Mexico	China	Total
Revenues	\$ -	\$ -	\$ -	\$ -
Depreciation	\$ 35,335	\$ -	\$ -	\$ 35,335
Loss before income tax	\$ (2,384,060)	\$ (105,314)	\$ (385,135)	\$ (2,874,509)

As at December 31, 2010	Corporate	Mexico	China	Total
Equity investment	\$ -	\$ -	\$ 4,832,922	\$ 4,832,922
Notes receivable	\$ -	\$ -	\$ -	\$ -
Total assets	\$ 610,821	\$ -	\$ 4,832,922	\$ 5,443,743

Nine-month period ended September 30, 2010	Corporate	Mexico	China	Total
Revenues	\$ -	\$ -	\$ -	\$ -
Depreciation	\$ 41,566	\$ 28,355	\$ -	\$ 69,921
Loss before income tax	\$ (1,739,540)	\$ (120,062)	\$ (1,029,923)	\$ (2,889,525)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Forward-looking statements

Statements made in this Form 10-Q that are not historical or current facts are "forward-looking statements" made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements often can be identified by the use of terms such as "may," "will," "expect," "believe," "anticipate," "estimate," "approximate," or "continue," or the negative thereof. We intend that such forward-looking statements be subject to the safe harbor processes for such statements. We wish to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. Any forward-looking statements represent management's best judgment as to what may occur in the future. However, forward-looking statements are subject to risks, uncertainties and important factors beyond our control that could cause actual results and events to differ materially from historical results of operations and events and those presently anticipated or projected. We disclaim any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statement or to reflect the occurrence of anticipated or unanticipated events.

All references herein to the terms "we," "our," "us," "SDR," and "the Company" refer to Silver Dragon Resources Inc. and its subsidiaries.

Available information

We file annual, quarterly, current reports, proxy statements, and other information with the SEC. You may read and copy documents that have been filed with the SEC at their Public Reference Room, 450 Fifth Street, N.W., Washington, D.C. You may obtain information on the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. You can also obtain copies of our SEC filings by going to their website at www.sec.gov.

OVERVIEW

Our primary objective is to explore for silver minerals and, if warranted, to develop those existing mineral properties. Our secondary objective is to locate, evaluate, and acquire other mineral properties, and to finance our exploration and development through equity financing, by way of joint venture or option agreements or through a combination of both. The Company's primary objective right now is to monetize its assets in order to augment its cash flow and ensure increased value.

CHINA

The properties in China, in which we have an interest, continue to be drilled and tunneled. Geologic mapping, trenching, tunneling and drilling work are underway for three of the properties known as Dadi, Laopandao, and Aobaotugounao. An NI 43-101 report on Laopandao property will be completed during the fourth quarter of this year and the NI 43-101 report on Dadi was updated during the third quarter.

On February 1, 2011 we reported an initial geological report from recently completed exploration work at the Company's Laopandao Silver-Tin-Copper-Lead Polymetallic project in Inner Mongolia, Northern China. Since 2006, an advanced drilling program has been carried out on the project, focusing on three mineralization zones and it is these three zones which were the focus of the report. Highlights from the report are as follows:

- Mineralization zone I is featured by a silver-copper-tin enrichment and is approximately 540m long, 100m wide with a dip extension of over 300m, containing 8 mineralized bodies with average grades Ag 231.7 g/t, Cu 0.48%, and Sn 0.335%.
- Mineralization zone II is also featured by a silver-copper-tin enrichment and is approximately 200m long and 80m wide, containing 16 mineralized bodies with the highest average grade of individual mineralized body at Ag 274.46 g/t, Cu 1.26 % (II-3 mineralized body), and Sn 0.185% (II-1a mineralized body).

- Mineralization zone III is characterized by tin mineralization, approximately 300m long and 200m wide and occurs within a granite porphyry intrusion. A total of 21 mineralized bodies were identified with the highest Tin ore grade at 34.08% and average Tin grade of 0.413%.
- All mineralized bodies have been defined by drill holes and/or underground drifts, the samples were analyzed with internal and external verification.
- The initial resource estimate of the three mineralization zones are based on Chinese National Non-ferrous Metal Resource Estimation Standards. Estimates show 4,616,370 t (metric tonnes) of ore with 318.2 t (10.2 million oz.) silver, 10,239 t copper, and 15,184.5 t tin.
- We will continue advanced exploration of Laopandao in 2011, conduct metallurgical testing on the 2010 exploration results and commission an initial NI 43-101 technical report based on CIM standards.

On February 23, 2011, we announced the completion of a geological report on the results from the 2010 drilling program at our Dadi Silver-Lead-Zinc Polymetallic project in Inner Mongolia, Northern China.

- Extensive exploration work has been carried out during the 2010 season with the major focus on mineralization zones I and II. These zones show the most significant mineralization so far. Although mineralization zones (III, IV, and V) also show significant potential, they were not the focus of the 2010 season.
- Additional resource estimation based on the Chinese National Non-ferrous Metal Resource Estimation Standards indicates that mineralization zones I and II contain 3,375,000t ore with 358.4 metric tonnes (11.5 million ounces) silver; 42,621 metric tonnes (93.9 million pounds) lead, and 60,240 metric tonnes (132.8 million pounds) zinc. These estimates are in addition to previous estimates disclosed in our NI 43-101 released in Q1 2010.
- An associated element, cadmium, was found in the polymetallic ores. The cadmium resource could be of significant industrial and economic value.

Further exploration and development plan

- Further exploration will focus on mineralization zones I and II in order to increase the amounts of mineable polymetallic resources by tunneling and underground drilling. For other mineralization zones, surface drilling will be continued
- Metallurgical testing will be completed shortly to provide basic industrial and economic parameters for development design.
- The construction of the ore processing mill and the underground mining system will commence in order for Dadi to become a producing property.

Since the associate element Cadmium is found in polymetallic ores, further testing work will be conducted to evaluate its industrial and economic values.

On March 23, 2011 Chifeng Silver Dragon Resources & Technologies, Ltd. which owns the Erbahuo mine signed a definitive agreement with Guangxi Hongteng Mining, Ltd. to commence production at the Erbahuo silver mine.

On April 5, 2011 we announced that Sanhe Sino-Top Resources & Technologies, Ltd. commenced this year's approved exploration program on three of its properties in Northern China. The exploration targets include 6,000 meters (incl. 1,000 meters contingency) drilling, 2,500m tunneling, a 200m inclined shaft and a 260m shaft at Dadi; 5,000 meters (incl. 1,000 meters contingency) drilling, 1,000m tunneling and a metallurgic test at Laopandao; 1,000 meters drilling at Aobaotugounao. In addition, field surveys will be conducted on the Yuanlinzi, Zhuanxinhu and Shididonggou properties for exploration consideration and potential in 2012.

On April 12, 2011 Sanhe Sino-Top Resources & Technologies, Ltd. completed an initial metallurgic analysis of the Dadi polymetallic silver project. The ore processing test was carried out by Inner Mongolia Minerals Experiment Research Institute, China, an ISO certified testing facility for exploration, assaying and ore processing. Crude ores for the metallurgic test were collected, using the channel sampling method, from underground drifts within mineralization zone II at Dadi. One 300 kilogram composite testing sample collected from four groups of underground sampling was submitted for the ore processing test. The combined samples have a grade of 1.50% lead and 1.78% zinc and constitute good representation of the Dadi project.

Ore processing testing and analysis included sample preparation, chemical and mineralogical composition analysis, mineral phase analysis, crude ore sizing analysis, crude ore gravity measurement, flotation reagent test, flotation condition test, grinding condition experiment, open-circuit test, closed-circuit test, chemical analysis of concentrates, and settling speed test of tailings.

The main conclusions of the ore processing test for the Dadi project are as follows:

1. Collected crude ore samples from Dadi Property are composed of metal minerals of sphalerite, galena, chalcopyrite, pyrite, argentite and small amounts of arsenopyrite; and gangue minerals of quartz, carbonates, epidote, and chlorite. Main recoverable metals from crude ores are lead, zinc, and silver. Other metal contents do not reach economic parameters.
2. Based on the ore processing test, the flotation process consists of two stages. The first stage recovers lead and then the second stage recovers zinc from lead tailings. The grade of lead concentrate is 66.40% Pb and the recovery rate of lead reaches 90.14%; and the grade of zinc concentrate is 42.48% Zn and the recovery rate reaches 74.79%. The grade of silver in lead concentrate is 2,965.04 g/t and silver recovery rate is 40.19% in the first stage of processing; the silver grade in zinc concentrates reaches 1,943.48 g/t and silver recovery rate reaches 40.35% in the second stage. The total silver recovery rate through the two-stage flotation process is 80.54%.

Products	Production rate (%)	Grade (%)		Grade (g/t) Ag	Recovery rate (%)		Ag
		Pb	Zn		Pb	Zn	
Lead concentrates	2.05	66.40	3.90	2,965.04	90.14	4.48	40.19
Zinc concentrates	3.14	1.12	42.48	1,943.48	2.33	74.79	40.35
Tails	94.81	0.12	0.39	31.04	7.53	20.73	19.46
Crude ore	100.00	1.51	1.78	151.24	100.00	100.00	100.00

3. The ore processing test has provided efficient results on the recovery of useful metals.
4. Lead occurs in sulfides, which have good floatability and are easily recovered.
5. Since oxidized zinc grades 0.5% in crude ores accounts for 28.12% of the total zinc content in crude ores, the high content of oxidized zinc leads to a relatively low recovery rate of zinc. It is suggested that further processing tests on oxidized zinc should be conducted in order to reduce processing costs.
6. The results of the ore processing test indicate that the crude ores at the Dadi Property are easy-to-process ores and the parameters of the test can be used for resource evaluation of the property.
7. Since the ore processing test is on laboratory scale, industrial-scale and continued ore processing testing should be carried out in order to provide more reliable references for feasibility study, mill design and development of Dadi Property.

In summary, our exploration work is focused on three of the six exploration properties:

- *Dadi Silver-Lead-Zinc Polymetallic project* : Drilling and tunneling projects are in progress, with 1,072.7m drilling (3 holes completed and 1 in progress) and 264m tunneling completed in the year to date. The tunneling project includes an exploratory tunnel aimed to explore the No. IV mineralized body and a mining tunnel to reach the No. II mineralized body. Moreover, the engineering design for mine development is in progress, paving the way for permitting and production preparations.
- *Laopandao Silver-Tin-Copper Polymetallic project* : A tunneling project is in progress, with 235.4m tunneling completed current year to date, which aims to continue defining the extensions of the No. III mineralized body. A metallurgic test is to be conducted later this year.
- *Aobaotugounao Silver-Lead-Zinc Polymetallic project* : A drilling project is in progress, with 482.2m drilling (two holes) completed current year to date. Three more drill holes have been approved within the 2011 exploration season due to the mineralization discovered.
- In addition, field surveys are being conducted on the three other properties of *Yuanlinzi, Zhuanxinhu and Shididonggou* to determine if their potentials may justify further exploration work.

MEXICO

We previously reported in our Annual Report on Form 10-K for the year ended December 31, 2010 about certain irregularities regarding our Cerro las Minitas Project in Mexico that resulted in our writing off of our investment in assets in Mexico in the years ended December 31, 2010 and 2009.

While we expect that we may eventually be successful with the Constitutional Rights Claim, since we have lost title to our 15 concessions in Mexico, pursuant to court judgments, at the end of 2010 we wrote off our Mexican properties.

RESULTS OF OPERATIONS

Nine months ended September 30, 2011

Total operating expenses for the nine months ended September 30, 2011 were \$1,739,032 compared to \$1,710,196 for the same period in the prior year. Loss on equity investment reduced from \$1,029,923 in the prior period to \$385,085 in the current period as a result of building less infrastructure in the current period. Interest expenses increased significantly from \$72,906 to \$812,892 as a result of the issuance of convertible notes payable.

Net sales were \$nil for both the periods ended September 30, 2011 and September 30, 2010 as there was no production at any of the properties.

Three months ended September 30, 2011 and September 30, 2010.

Total operating expenses for the three months ended September 30, 2011 were \$602,596 (2010 – \$551,137). Interest expense increased significantly from \$72,709 to \$416,951 as a result of the issuance of convertible notes payable.

Summary of Quarterly Results

The following table sets forth selected results of operations for our most recently completed quarters:

Quarter ended	Total operating expenses (\$)	Total other expenses/ (income) (\$)	Net loss (\$)	Basic and diluted net loss per common share
September 30, 2011	602,596	586,178	1,188,774	\$0.01
June 30, 2011	547,835	403,204	951,039	\$0.01
March 31, 2011	588,601	146,096	734,697	\$0.01
December 31, 2010	3,083,621	(1,654,828)	1,428,793	\$0.03
September 30, 2010	551,137	378,919	930,056	\$0.01
June 30, 2010	471,597	688,671	1,160,268	\$0.01
March 31, 2010	687,512	111,689	799,201	\$0.01

In the quarter ended December 31, 2010 we wrote off our Mexican assets for a total of \$2,335,289 which was included in total operating expenses.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2011 we had working capital of \$1,347,206 (December 31, 2010 – (\$1,734,363)). We have funded our expenses and capital requirements through the issuance of shares, warrants and notes. Sales of shares were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended, and/or Regulation D thereunder, and/or Regulation S thereunder. All of the purchasers of the shares were sophisticated or accredited investors. The shares were issued with a restrictive legend.

We expect to invest approximately \$1,050,000 into Sino-Top in 2011. These funds are to be invested towards exploration and property maintenance on the seven properties in the portfolio and conducting a Canadian National Instrument (NI) 43-101 report on the Laopandao property and updating the NI43-101 report on the Dadi property.

On January 11, 2011, we issued a convertible note with a principal amount of \$65,000. On March 1, 2011 we issued a convertible note with a principal amount of \$55,000. On April 8, 2011, we issued a convertible note with a principal amount of \$50,000. The notes bear interest of 8% per annum, are unsecured, and are due on October 13; December 2, 2011 and January 12, 2012, respectively. The notes are convertible into common stock, at the lender's option, at a discount to the average of the three lowest closing prices of the common stock during the 10 trading day period prior to conversion. The lender has agreed to restrict its ability to convert the notes and receive shares of common stock such that the number of shares of common stock held by them and their affiliates in the aggregate after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of common stock.

On February 15, 2011, we closed a convertible financing of \$2.5 million bearing interest of 5.5% per annum over a four-year period, with consideration of \$500,000 paid at closing and \$2,000,000 to be paid in a series of ten notes, each in the principal amount of \$200,000, with each due on or before the earlier of (i) 49 months from February 15, 2011, or (ii) subject to certain conditions, a series of dates beginning on September 15, 2011 and following on the 15th of each month thereafter. We have the right to offset the payment of any unpaid note receivable subject to certain conditions. In exchange for the note receivable issued, we issued a convertible note payable to the investor with a face amount of \$2,766,000 due February 15, 2015, which represents the \$2,500,000 paid or to be paid to us by the investor and other fees and expenses. The investor also received a warrant to purchase 8.6 million common shares of the Company at an exercise price of \$0.50 per share at any time within three years after the date of issuance.

The proceeds of the financing were allocated between the convertible note payable (\$1,938,233), the related warrants (\$242,090), the related expenses (\$343,391), and the beneficial conversion feature (\$242,786) based upon their respective fair values in accordance with ASC 470. The difference between the face value of the convertible note payable and the allocated value is being charged to interest expense over the term of the convertible note payable. The fair value of the beneficial conversion feature will be allocated over the term from commitment date to the maturity date of the convertible note payable. Contingent beneficial conversion features will be recognized when the outstanding conditions have been met and will amortized from the date of recognition to the maturity date of the convertible note payable. The fair value of the warrants and the related expenses will be allocated over the term from the commitment date to the maturity date of the convertible note payable.

On April 11, 2011, we issued two unsecured, convertible notes with a principal amount of \$100,000 and \$300,000, bearing interest at 6% per annum and maturing April 11, 2013. This reflects an original issue discount of 4% and the sale of this note to the holder for \$96,000 and \$288,000 respectively. The notes are convertible into common stock, at the lender's option, at a 30% discount of any four trading days prior to and including the day of conversion. The \$300,000 note shall be paid for by the issuance of a \$300,000 promissory note.

On April 19, 2011, we closed a convertible financing agreement with a privately-held US investment firm. The total planned funding amount is \$3,000,000, with payment consisting of \$1,000,000 through a convertible promissory note and four \$500,000 promissory notes, bearing interest at 5%, secured and collateralized by the lender.

The initial note provides for \$1,000,000 in the form of cash payments to be made to us according to a funding schedule expiring 180 days after an effective registration statement covering the resale of the shares of common stock issuable upon conversion of the note, assuming certain share volume and prices are met. The registration statement became effective on May 19, 2011. \$650,000 was paid to us. \$100,000 is currently and \$250,000 is due November 19, 2011. The subsequent notes each aggregate \$500,000 consideration, totaling \$2,000,000, which are secured and collateralized, over the remainder of the three-year period. The total face amount of the convertible notes issued to us is \$3,150,000, which represents \$3,000,000 to be paid to us and other fees and expenses to be paid to the lender. The difference between the fair value of the convertible note payable and the allocated value is being charged to interest expense over the term of the convertible note payable. The fair value of the beneficial conversion feature as at September 30, 2011 is \$977,083. The fair value of the beneficial conversion feature will be allocated over the term from the commitment date to the maturity date of the convertible note payable.

SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. These estimates are based on management's best knowledge of current events and actions we may undertake in the future. Significant areas requiring the use of estimates relate to mineral rights, equity investment, plant and equipment, and stock-based compensation. Actual results could differ from these and other estimates. These estimates are reviewed periodically and as adjustments become necessary, they are reported in earnings in the respective period.

We have identified below certain accounting policies that we believe are most important for the portrayal of our current financial condition and results of operations. Our significant accounting policies are disclosed in Note 4 to the Consolidated Financial Statements included in our Annual Report on Form 10-K filed on March 22, 2011.

Mineral Rights

We record our interest in mineral rights at cost. Exploration costs are expensed. Costs associated with acquisition and development of mineral reserves, including directly related overhead costs, are capitalized and are subject to ceiling tests to ensure the carrying value does not exceed the fair value.

Investments in unproved properties and major exploration projects are not amortized until proved reserves associated with the projects can be determined or until impairment occurs. If the results of an assessment indicate that the properties are impaired, the capitalized cost of the property will be added to the costs to be amortized. We presently have no proven reserves. Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses whether the carrying values can be recovered. If the carrying values exceed estimated recoverable values, then the costs are written-down to fair values with the write-down expensed in the period.

Equity Investment

Equity investments are entities over which we exercise significant influence but do not exercise control. These are accounted for using the equity method of accounting and are initially recognized at cost net of any accumulated impairment loss. Our share of these entities' profits or losses after acquisition of our interest is recognized in the statement of operations and cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When our share of losses on these investments equals or exceeds the carrying amount of the investment, we only recognize further losses where we have incurred obligations or made payments on behalf of the affiliate.

OFF BALANCE-SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements or contractual obligations that have had or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that have not been disclosed in our financial statements.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

Under the supervision and with the participation of our senior management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report (the "Evaluation Date").

Based on this evaluation, our chief executive officer and chief financial officer concluded as of the Evaluation Date that our disclosure controls and procedures were not effective such that the information relating to the Company, including our consolidated subsidiaries, required to be disclosed in our SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure. Material events occurred in Mexico over the past five years that were not reported to head office on a timely basis, as disclosed herein. Further, management has been unable to establish that disclosure controls and procedures are operating effectively to ensure that events and transactions affecting our subsidiary in Mexico are recorded, processed, summarized and reported within the required time periods. Management is of the view that controls over its operations in Canada and China are effective.

Report by Management on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in the Securities Exchange Act of 1934 Rule 13a-15(f). The framework used by management to evaluate internal controls over financial reporting is *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations (COSO), as implemented by their subsequent publication *Internal Control over Financial Reporting – Guidance for Smaller Public Companies*. Based on this evaluation, management concluded that our internal control over financial reporting was not effective as of September 30, 2011, because we were unable to obtain complete information regarding internal controls and process descriptions from our subsidiary in Mexico. In addition, the weaknesses referred to above under evaluation of disclosure controls and procedures also lead us to believe that our internal control over financial reporting was not effective as of September 30, 2011.

Changes in internal controls

There were no changes to internal controls in the third quarter.

Limitations on the effectiveness of controls

Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake.

Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

CEO and CFO Certifications

Attached as Exhibits to this Form 10-Q are Certifications by the CEO and the CFO, in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.

Audit Committee report

The audit committee was formed in the fourth quarter of the previous fiscal year. The board of directors has determined that both Charles McAlpine and Glen MacMullin, as members of our Audit Committee, are audit committee financial experts. The audit committee's primary function is to provide advice with respect to our financial matters and to assist our Board of Directors in fulfilling its oversight responsibilities regarding finance, accounting, and legal compliance. The audit committee charter is published on our website at www.silverdragonresources.com.

PART II: OTHER INFORMATION

Item 1A. Legal Proceedings.

China

In December, 2010, shareholders of the Company received a letter from a shareholder which contained two items. The first was a copy of a legal proceeding filed in China and the second was a letter making certain allegations regarding Silver Dragon and its management. The legal proceeding was filed by two shareholders and sought to invalidate our sale in 2008 of 50% of Sanhe SinoTop Resources & Technologies, Ltd. We believe that the legal proceeding was frivolous and wholly without merit. The sale in question was made to a Chinese government-owned entity, after the receipt of approval by the Ministry of Commerce in China. The second item was a letter written by a purported "Minority Shareholder Committee," claiming that it had initiated the proceeding. The letter alleged that the Company and its management had engaged in various improper and illegal activities. We, on several occasions, through our legal counsel in several countries, have asked that individual to cease and desist, and subsequently filed a Writ of Summons in the High Court of the Hong Kong Special Administrative Region, Court of First Instance claiming damages for libel, an injunction and other relief. On May 4, 2011, judgment was given in favor of the Company for damages for libel, malicious falsehood, interest and costs, with amounts to be assessed by the court.

Mexico

Our Mexican subsidiary has been subjected to irregularities that it is seeking to redress. Legal proceedings were heard and decided on an ex parte basis, without notice to us that resulted in our Mexican subsidiary losing title to its mineral assets. In December 2010, we became aware of this situation, and are now taking steps through the courts in Mexico to redress the situation. We have commenced a Constitutional Rights Claim before the Federal Court in the City of Durango, premised on procedural irregularities. The court proceedings are continuing in Mexico.

Financing

As an element of our ongoing financing program, on January 27, 2011, the Superior Court of the State of California for the County of Los Angeles entered an Order Approving Stipulation for Settlement of Claim in the matter entitled Socius CG II, Ltd. v. Silver Dragon Resources Inc. The order provides for the settlement of Socius' \$405,981.49 claim against us, which they purchased from seven creditors.

Pursuant to the order, we initially issued to Socius 9,000,000 shares of our common stock, representing approximately 8.28% of the total number of shares outstanding. We issued the shares in reliance upon the exemption from registration provided by Section 3(a)(10) of the Securities Act of 1933, as amended. Such shares were issued in exchange for the Claims pursuant to the Order of the Court, which determined that such exchange was fair to Socius following notice to the Court of our intent to rely upon the exemption and a hearing of which Socius received notice and in which it participated.

The total number of shares issued to Socius was adjusted on the 21st trading day following the date on which they were issued as follows: the number of Volume Weighted Average Price (VWAP) shares were less than the number of shares issued and therefore Socius is returning to us for cancellation 3,116,104 shares which equals the difference between the number of VWAP Shares and the number of shares originally issued. The number of shares is equal to (i) \$405,981.49 plus \$28,691.32 of Socius' legal fees divided by 75% of the VWAP of our common stock over the 20-day trading period immediately following the date on which the shares were originally issued. The final number of shares issued to Socius is 5,883,896.

Item 1B. Risk Factors

You should consider each of the following risk factors and other information set forth in this Form 10-Q and the other reports we have filed with the SEC, in evaluating our business and prospects. The risks and uncertainties described below are not the only ones that may affect our operations and business. Additional risks and uncertainties not presently known to us, or that we currently consider immaterial, may also impair our business or operations. A full set of risk factors is set out in our Form 10-K filed with the SEC on March 22, 2011.

None of the properties in which we have an interest or the right to earn an interest has any known reserves.

None of the properties in which we have an interest or the right to earn an interest has any reserves. To date, we have engaged in only exploration activities on the properties and accordingly, we do not have sufficient information upon which to assess the ultimate success of our exploration efforts. If we do not establish reserves, we may be required to curtail or suspend our operations, in which case the market value of our common stock may decline, and you may lose all or a portion of your investment.

The Company does not have sufficient funds to meet all of its future obligations. We will need additional funding, either through equity or debt financings or partnering arrangements, which could negatively affect us and our stock price.

We are an exploration stage company, and based on our negative cash flows from operating activities there is uncertainty as to our ability to continue as a going concern.

From inception, we have generated limited revenues and have experienced negative cash flows from operating losses. We anticipate continuing to incur such operating losses and negative cash flows for the foreseeable future, and to accumulate increasing deficits as we increase our expenditures for exploration of minerals, infrastructure, research and development and general corporate purposes. Any increases in our operating expenses will require us to achieve significant revenue before we can attain profitability. Our history of operating losses and negative cash flows from operating activities will result in our continued dependence on external financing arrangements. In the event that we are unable to achieve or sustain profitability or are otherwise unable to secure additional external financing, we may not be able to meet our obligations as they come due, raising substantial doubts as to our ability to continue as a going concern. Any such inability to continue as a going concern may result in our security holders losing their entire investment. There is no guarantee that we will generate revenues or secure additional external financing. Our financial statements, which have been prepared in accordance with the US GAAP, contemplate that we will continue as a going concern and do not contain any adjustments that might result if we were unable to continue as a going concern. Changes in our operating plans, our existing and anticipated working capital needs, the acceleration or modification of our expansion plans, lower than anticipated revenues, increased expenses, potential acquisitions or other events will all affect our ability to continue as a going concern.

The reports of independent auditors of our consolidated financial statements included in the previously filed 10-K annual report contain explanatory paragraphs which note our recurring operating losses since inception, our lack of capital and lack of long term contracts related to our business plans, and that these conditions give rise to substantial doubt about our ability to continue as a going concern. In the event that we are unable to successfully achieve future profitable operations and obtain additional sources of financing to sustain our operations, we may be unable to continue as a going concern.

We have a history of operating losses and we anticipate future losses.

Since we changed our business focus to silver exploration, we have generated no revenue. We anticipate that losses will continue until such time when revenue from operations is sufficient to offset our operating costs, if ever.

We will have to hire additional personnel with technical training or experience in exploring for, starting and operating an exploration program. If we cannot effectively supervise or retain such personnel, we may have to suspend or cease operations, which will result in the loss of your investment.

We hired new contractors to perform surveying, exploration and excavation of mineral claims that we may acquire. Management must rely on the personnel it has hired or retained to assist them in making critical engineering and business decisions. Consequently, our operations, earnings and ultimate financial success could suffer irreparable harm if our management is unable to supervise and retain qualified personnel to carry out these tasks. As a result we may have to suspend or cease operations, which will result in the loss of your investment.

Our success also depends on our ability to hire and retain skilled operating, marketing, technical, financial and management personnel. In the mining sector, competition in connection with hiring and retaining skilled, dependable personnel is intense. We may not offer salaries or benefits that are competitive with those offered by our competitors, who may have significantly more resources when compared to us. As such, even if we were to succeed in hiring skilled personnel, we may not succeed in retaining them.

It is possible that third parties will challenge our title for the properties in which we have an interest or that there could be other issues with title to our property.

We have not obtained title insurance for our properties. Title to the properties in which we have an interest may be and in fact has been challenged in Mexico. In Mexico we have lost title and, if such an event occurred in China, we will likely incur significant costs and lose valuable time in defending such a challenge. If such claims are successful, we will lose our interest in the respective properties.

Because we have limited capital, we may have to limit our exploration activity, which may result in a loss of your investment.

Because we have limited capital, we must limit our exploration activity. As such, we may not be able to complete an exploration program that is as thorough as the one that we currently anticipate on conducting. In that event, an existing ore body may go undiscovered. Without an ore body, we cannot generate revenues, in which case, you will lose your investment.

Because our interests are in Mexico and China, our business is subject to additional risks associated with doing business outside the United States.

We expect that a portion of our revenues, if any, may be derived from sales of our products in foreign markets. Accordingly, we will be subject to all risks associated with foreign trade. These risks include shipping delays, increased credit risks, trade restrictions, export duties and tariffs, fluctuations in foreign currency, and uncertainties in international, legal, political, regulatory and economic developments.

In addition, we anticipate that our foreign operations will require us to devote significant resources to system installation, training and service, areas in which we have limited experience.

Because all of our assets, our officers and our directors are located outside the United States of America, it may be difficult for an investor to enforce within the United States any judgments obtained against us, our officers or our directors.

All of our assets are located outside of the United States, the individuals serving as officers and directors are nationals and/or residents of a country or countries other than the United States, and all or a substantial portion of their assets are located outside the United States. As a result, it may be difficult for an investor to effect service of process or enforce within the United States any judgments obtained against us or our officers and directors, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof. In addition, there is uncertainty as to whether the courts of Canada and other jurisdictions would recognize or enforce such judgments rendered by the courts of the United States. There is also uncertainty as to whether the courts of Canada or other jurisdictions would be competent to hear original actions brought in Canada or other jurisdictions against us or our officers and directors predicated upon the securities laws of the United States or any state thereof.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

No report required.

Item 3. Defaults upon senior securities

No report required.

Item 4. Submission of matters to a vote of security holders

No report required.

Item 5. Other information

No report required.

Item 6. Exhibits

31.1 Certification of Chief Executive Officer pursuant to Securities Exchange Act of 1934 Rule 13a-14(a) or [15d-14\(a\)](#).

31.2 Certification of Chief Financial Officer pursuant to Securities Exchange Act of 1934 Rule 13a-14(a) or [15d-14\(a\)](#).

32.1 Certifications pursuant to Securities Exchange Act of 1934 Rule 13a-14(b) or 15d-14(b) and 18 U.S.C. Section [1350](#), as adopted pursuant to [Section 906 of the Sarbanes- Oxley Act of 2002](#).

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SILVER DRAGON RESOURCES INC.

Dated: November 1, 2011

By: /s/ Marc Hazout
Marc Hazout, President and Chief Executive Officer

Dated: November 1, 2011

By: /s/ Jeffrey D. Sherman
Jeffrey D. Sherman, Chief Financial Officer

CERTIFICATION

I, Marc M. Hazout certify that:

1. I have reviewed this report on Form 10-Q/A of Silver Dragon Resources Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 2, 2011

/s/ Marc M. Hazout

Marc M. Hazout

President and Chief Executive Officer

CERTIFICATION

I, Jeffrey D. Sherman certify that:

1. I have reviewed this report on Form 10-Q/A of Silver Dragon Resources Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 2, 2011

/s/ Jeffrey D. Sherman
Jeffrey D. Sherman
Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT
TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Marc M. Hazout and Jeffrey D. Sherman certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Form 10-Q/A for the period ended September 30, 2011, fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q/A fairly presents in all material respects the financial condition and results of operations of Silver Dragon Resources Inc.

Dated: December 2, 2011

/s/ Marc M. Hazout

Marc M. Hazout
Chief Executive Officer and President

/s/ Jeffrey D. Sherman

Jeffrey D. Sherman
Chief Financial Officer
